



Special Notice

WASHINGTON STATE DEPARTMENT OF REVENUE

APRIL 2017

Tax Incentives for Federal Aviation Regulation Part 145 Repair Stations

This notice provides a comprehensive overview of the tax incentives available for Federal Aviation Regulation (FAR) part 145 repair stations.

Retail Sales and Use Tax Exemption for Computers

Certificated FAR part 145 repair stations are eligible for a retail sales and use tax exemption on purchases of computer hardware, software and peripherals used primarily in the development, design and engineering of aerospace products or in providing aerospace services. The exemption also applies to charges for labor and services related to the installation of qualifying computer hardware, software and computer peripherals. Computer peripherals include keyboards, monitors, mouse devices, and other devices that operate outside the computer, excluding cables, conduit, wiring, and similar property. The purchaser must provide the vendor with a completed *Buyers' Retail Sales Tax Exemption Certificate*. This exemption expires July 1, 2040.

Business and Occupation (B&O) Tax Rate

All certificated FAR part 145 repair stations making retail sales in the state of Washington are eligible for a preferential B&O tax rate of .2904%. Currently, only FAR part 145 repair stations with airframe and instrument ratings and limited ratings for nondestructive testing, radio, Class 3 Accessory, and specialized services are eligible for the lower rate. This preferential rate expires July 1, 2040.

Qualified Aerospace Development Expenditures B&O Tax Credit

There is a B&O tax credit equal to 1.5% of qualified aerospace product development expenditures incurred by certificated FAR part 145 repair stations. A form must be must completed each time the credit is taken. The form can be found within the Department's Electronic Filing (E-file) system on the "credits" page. Pre-approval from the Department of Revenue is not required to use the credit. Credit may not be claimed for expenditures for which a credit is claimed under RCW 82.04.4452 (High Technology Research and Development B&O tax). The credit cannot exceed B&O taxes due for any reporting period. Any unused credit accrued after July 1, 2008, cannot be carried over beyond the calendar year in which the qualifying expenditures are incurred.

"Qualified aerospace product development expenditures" are operating expenses, including wages, benefits, supplies, and computer expenses, directly incurred in qualified aerospace product development by a person claiming the credit. The term includes expenses directly incurred in the discovery of technological information, the translating of technological information into new or improved products, processes, techniques, formulas, or inventions, and the adaptation of existing products and models into new products or new models, or derivatives of products or models. The term also includes expenditures for tool design and engineering design for the manufacturing process.

However, the term does not include manufacturing expenditures or other production-oriented expenditures. Nor does the term include the cost of surveys and studies, social science and humanities research, market research or testing, quality control, sale promotion and service, computer software developed for internal use, and research in areas such as improved style, taste, and seasonal design. In addition, the term does not include capital costs and overhead, such as expenses for land, structures, or depreciable property, or amounts

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paid to a person to conduct qualified aerospace product development, or to the state and any of its departments and institutions, other than a public educational or research institution. This credit expires July 1, 2040.

Property and Leasehold Excise Tax B&O Tax Credits

Certificated FAR part 145 repair stations are eligible for a B&O tax credit on property taxes or leasehold excise taxes paid on or with respect to, buildings (and land upon which the buildings are located) constructed after June 30, 2008 and used exclusively for aerospace product development or in providing aerospace services. The credit is equal to the amount of property/leasehold tax paid on the land and buildings. The credit is also available for property taxes attributable to an increase in assessed value due to the renovation or expansion of buildings used exclusively for aerospace product development or in providing aerospace services. These credits expire July 1, 2040.

The credit is also available against property taxes paid on computer hardware, computer peripherals and software used primarily in the development, design and engineering of aerospace products or in providing aerospace services, (exempt under 82.08.975 or 82.12.975) purchased after June 30, 2008. The credit is equal to the amount of property tax paid on qualifying computer equipment. This credit expires July 1, 2040.

This B&O tax credit cannot be claimed until the property taxes associated with the qualifying land, buildings, or computer equipment have actually been paid. If a persons B&O tax obligation is less than the property taxes paid on qualifying property, the credit may carry forward one year, but may not be carried over a second year. B&O tax refunds will not be granted in lieu of a credit for property taxes paid.

Annual Reporting Requirements Change

Beginning July 9, 2014, you must electronically file both the Annual Tax Incentive Survey and Annual Tax Incentive Report. The due date is May 31 of the year following the year you became eligible to claim the preference, beginning with reports and surveys due in 2017. For more information, see our Special Notice, [New and Extended Aerospace Tax Preferences](#).

Electronic Filing Required

All reports and other such documents required by the Department of Revenue to take advantage of the aerospace tax incentives must be filed electronically.

Important Definitions

“Aerospace product” means commercial airplanes and their components as defined in RCW 82.32.550; machinery and equipment that is designed and used primarily for the maintenance, repair overhaul or refurbishing of commercial airplanes or their components by federal aviation regulation (FAR) part 145 certificated repair stations; and tooling specifically designed for use in manufacturing commercial airplanes or their components. “Providing aerospace services” means the maintenance, repair, overhaul, or refurbishing of commercial airplanes or their components, but only when such services are performed by a FAR part 145 certificated repair station.

“Aerospace product development” means research, design and engineering activities performed in relation to the development of an aerospace product, including prototype development, testing and certification. The term includes the discovery of technological information, the translating of technological information into new or improved products, processes, techniques, formulas, or inventions, and the adaptation of existing products and models into new products or new models or derivatives of products or models.

“Primarily” means greater than 50% of the equipment’s capacity or total time the equipment is used.